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UNCLAS SECTION 01 OF 03 ANKARA 001460

SIPDIS

STATE FOR EUR/SE AND EB/IFD  
TREASURY FOR INTERNATIONAL AFFAIRS - CPLANTIER

SENSITIVE

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [TU](#)

SUBJECT: TURKEY'S LOWER 2006 TOURISM NUMBERS COULD  
WORSEN CURRENT ACCOUNT DEFICIT

REF: (A) ANKARA 1105 (B) 05 ANKARA 3058

11. (U) SUMMARY. ON THE HEELS OF 2005'S RECORD TOURISM NUMBERS, A "SERIES OF UNFORTUNATE EVENTS" - THE AVIAN INFLUENZA OUTBREAK, THE CARTOON CONTROVERSY, AND RUMORS OF AN ALCOHOL BAN - HAS LED TO A SHARP DECREASE IN THE NUMBER OF 2006 BOOKINGS FOR FOREIGN VISITORS IN TURKEY. WHILE THE ANTALYA'S MASS-MARKET TOURISM IS BEARING THE BRUNT OF THE DECREASE, INDUSTRY EXPERTS BELIEVE THAT TURKEY WILL BOUNCE BACK BY THE END OF THE YEAR, DESPITE CONCERNS ABOUT A STRONG LIRA HURTING COMPETITIVENESS. THE TOURISM SECTOR DIRECTLY AND INDIRECTLY EMPLOYS OVER 2.5 MILLION PEOPLE AND IS A MAJOR SOURCE OF SORELY NEEDED FOREIGN CURRENCY. SUBSTANTIALLY LOWER TOURISM RECEIPTS WOULD EXPAND TURKEY'S GROWING CURRENT ACCOUNT DEFICIT. END SUMMARY.

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2005: A Record Year for Turkish Tourism Industry  
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12. (SBU) 2005 was a banner year for Turkish tourism, with the number of visitors soaring by 20 percent to 21.1 million and net tourism revenue reaching USD 15.3 billion. Antalya, on Turkey's Mediterranean coast, is the country's tourism hub. According to Ali Tulek, Garanti Bank's Antalya regional manager, 30 percent of the tourists who visit Turkey come to Antalya, which translates to between six and seven million tourists per year. Tulek told us that 550 flights per day - 90 percent of which are charter flights - land in Antalya, making its airport the busiest in Turkey. The majority of visitors to Antalya are Russian, British, and German, although in 2005 the number of Americans grew significantly, as the number of cruise ships calling on Turkish ports increased.

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Worries in Antalya  
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13. (SBU) In sharp contrast to the "sky is the limit" attitude about Antalya tourism in 2005 (ref B), Mediterranean Association of Touristic Hoteliers (AKTOB) President Osman Ayik told us that hotel bookings in Antalya are down 50 percent from the same time last year. He explained that avian influenza, the Danish cartoon crisis, and the rumors of more severe alcohol restrictions throughout Turkey (which received significant coverage in the European press) all occurred when European customers were deciding where to vacation for the summer, leading to a sharp drop in bookings. Ayik told us that, while he believes the tourism industry will bounce back from the latest setbacks, they need more support from the GOT. He noted that the tourism sector is hoping that the GOT will decrease the value-added tax rate, as it recently did for the textile industry.

14. (SBU) Ayik also pointed to a decline in price competitiveness as a threat to the Antalya tourism industry. He said that hoteliers' profit margin fell by as much as 30 percent in 2005 with the strengthening of the lira (ref A). To maintain their margins, Ayik explained that hotels have had to raise prices, weakening Turkey's comparative advantage and encouraging more tourists to book vacations in other Mediterranean countries, notably Spain.

15. (SBU) Tulek noted that the increase on all-inclusive, "sun-sea-sand" vacation packages were also affecting many smaller hotels' and businesses' profit margins. He said that, while millions of tourists flock to Antalya annually, local businesses do not benefit, as the visitors spend their entire vacation inside their hotel compound. He said that large all-inclusive resorts generally purchase their supplies and food from wholesalers rather than from local small businesses, so last year's surge in tourism did not trickle down to the local economy. Tulek believes this

all-inclusive trend will increase in the coming years.

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GOT, Travel Agents Believe the Sector Will Bounce Back  
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16. (SBU) In contrast to the grim outlook in Antalya, tourism officials in Istanbul and Ankara were optimistic that the sector would bounce back in the coming months. In January, the Association of Turkish Travel Agencies (TURSAB), which is based in Istanbul and has over 4000 members throughout Turkey, projected that the number of foreign visitors to Turkey would increase by 15 percent in 2006. Cengiz Yucel, director of TURSAB's research and development department, told us that they revised this estimate after the avian influenza outbreak and the cartoon crisis, but said that they still expect the number of foreign tourists to increase by five percent this year. Yucel acknowledged that Antalya has been hit the hardest, with the number of flights in Antalya down 35 percent from last year at this time, but said they expect the numbers to be back on track again within three to four months. He said that the number of tourists in Istanbul increased 40 percent in 2005, and TURSAB expects the number to increase even more in 2006.

17. (SBU) Yucel told us that coming up with new ways to promote Turkey is the biggest challenge the tourism sector is facing. Echoing Yucel's comments, Senol Aydemir, director general for investments and enterprises at the Ministry of Culture and Tourism, said that the GOT is developing two "master plans" - one focusing on historical/cultural tourism and one focusing on geothermal tourism - to diversify the industry. He said that 75 percent of tourists come to Turkey for "sun-sea-sand" vacations, but the GOT is hoping to extend the tourism season year-round by promoting the country's geothermal potential and its historic sites.

18. (SBU) Aydemir also echoed Yucel's hope that Turkey's tourism sector will bounce back from its "series of unfortunate events" quickly. He cited the advantages that Turkey has over its Mediterranean competitors, especially Spain - Turkey's facilities are newer and cheaper, and, Aydemir says, the quality of customer service is higher. He believes that the tourists who opted to go to Spain instead of Turkey this year will return in 2007 once they see the higher prices and "lower service standard" in Spain.

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Tourism Sector Seeks Government Support  
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19. (SBU) Tourism sector businesses have been pressuring the government for special tax breaks and subsidies, citing lower bookings and the Government's recent VAT rate cut for textiles. At a March 15 "tourism summit" arranged by TOBB (Turkish Union of Chambers of Commerce), tourism sector leaders made their case to Government leaders, including Prime Minister Erdogan. The tourism executives raised the specter of job losses and sharply lower foreign exchange receipts. They point out that Turkey's VAT rate, at 18 percent, is above the average of comparable Mediterranean tourist destination countries and are keen for a sectoral VAT rate cut, like the one for the textile sector that recently got the GOT into hot water with the IMF. Tourism sector representatives also requested that the GOT cut both payroll taxes and the special consumption tax rate on alcoholic beverages. They also requested support for their marketing activities. Following the meeting, PM Erdogan said the GOT would strive to encourage increased productivity in the sector, and was ready to implement whatever would be needed together with the tourism sector.

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Lower Receipts Would Worsen Current Account Deficit  
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19. (SBU) The tourism industry plays a key role in the Turkish economy, particularly for employment and as a source of foreign exchange receipts. With recent strong economic growth unable to create jobs at a faster rate than the growth in the labor force, Turkey can ill-afford a slump in a labor-intensive sector: tourism sector representatives on March 15 claimed that as many as 360,000 jobs may be at risk if the lower bookings so far this year and high labor costs continue.

10. (SBU) With its structural trade and current account deficits, which have been on a widening trend in recent years, Turkey's balance of payments depends on tourism

receipts as a source of foreign exchange. In 2005, for example, net "travel revenues" (mostly tourism) component of the Balance of Payments showed a 14.3% increase to \$15.3 billion, a significant number when compared with Turkey's \$22.85 billion current account deficit. (Gross travel revenues inflow was \$18.15 billion.)

11. (SBU) On March 20, the State Statistical Institute announced that the tourism numbers for January and February are down 7.4 percent from the same time last year. If the lower bookings in 2006 continue, leading to substantially lower tourism receipts it will worsen the current account deficit. The deficit was around 6.4% of the GDP in 2005, and some private analysts expect it to reach \$26 billion in 2006 despite the GOT projection of \$22 billion.

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